

# City of Sequim

## 2018 Budget

### **Introduction**

*Continued Commitment to Prudent Fiscal Management...*

**Balance Ongoing Revenues with Ongoing Expenses**

**Continue to Implement City Council  
Priorities**

**Minimize Impact  
of Taxes,  
Rates & Fees**

**Maintain the  
Highest Quality of  
Service**

**Long-Term  
Financial  
Sustainability**

**Directing  
Government  
Programs**



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## **City of Sequim**

### **City Manager's 2018 Budget Message**

#### **Honorable Mayor, City Council and Sequim Residents:**

I am pleased to present the City's 2018 Proposed Annual Budget, the annual financial roadmap for the City of Sequim with projected total expenditures of \$32.7ml.

The Annual Budget serves as a means to allocate resources to a variety of City priorities and programs to protect the community's physical security, enhance the community's quality of life, and to maintain and develop the City's facilities and infrastructure.

This policy document represents our continued commitment to prudent fiscal management, effective service delivery and to providing our citizens with an affordable quality of life. Once adopted by the Council the budget establishes the direction for all City government programs and services for the coming year. It represents the consensus of Council direction and staff recommendations on how to best accomplish Council goals and respond to the highest priorities of community needs.

We have based the proposed budget on the City Council vision and priorities that were adopted in early 2017. We guided budget preparation also by the adopted City Council financial policies and the following budget principles:

- Continue to implement City Council top priorities;
- Balance current revenues and current expenses and maintain acceptable reserve levels;
- Minimize impact of any tax and fee increases on residents and ratepayers;
- Make decisions in the 2018 budget that continue to reset the City's financial plan and create a foundation to maintain a balanced budget in future years;
- Maintain the highest quality of services.

#### **2018 Highlights:**

The budget is focused on maintaining service levels within the constraints of our resources. In 2018, we see continued positive improvement in economic activity that is reflected conservatively in our resources across the organization. We will continue to utilize these resources to support street operations, equipment and replacement reserves, to fund debt service and centralized General Fund services as well as Council priorities to a greater degree.

In the following pages you will see continuing themes from 2017. These include Organizational Development, management of the Council Priority work plan, improving efficiencies, and cross training as part of succession planning for upcoming retirements. Specific line items have been added to this budget for economic development, neighborhood revitalization, code enforcement, municipal code “scrubbing”, records management, technology improvements, and continued emergency management planning - to name a few things. The budget reflects our mission to achieve the highest level of employee and customer satisfaction by being proactive and highly productive, demonstrating effective leadership at all levels, encouraging creative problem solving and adapting to changing community needs and environment.

Debt service on the bonds financing the Civic Center will continue for the fourth year in 2018. Capital projects in this budget for streets (\$2.9ml), parks (\$574k), stormwater (\$154k – grant funded), water (\$1.8ml), sewer (\$1.5ml) and facilities (\$53k) – are all consistent with Council goals and the Comprehensive Improvement Plan (CIP) updated and adopted in 2017.

Utility rates and structural changes are adjusted consistent with the 2013 rate study. Operational expenses reflect some one-time transfers out of fund balances to Replacement Reserves.

## **General Fund**

Total General Fund revenues projected for 2018 are approximately \$9.97ml and are balanced with expenditures. Revenues are projected to increase about 6% over the prior year’s conservative estimates and operational expenses (excluding transfers) about 7%. General Fund tax revenues are projected to grow slightly (3%) over the 2017 budget. Sales tax is one of our largest single general revenue sources and the only one that typically grows or shrinks significantly with the local economy. Utility Tax revenues continue to be strong with year over year growth. General Fund allocations conservatively predict increases consistent with the increase in the cost of overhead functions. Lastly, property tax revenues are improving for 2018, while they were impacted by declining assessed values and limited new construction in the past. A statutory 1% limit on growth in property tax collections fails to keep pace with inflation.

### **General Fund Highlights:**

- We conservatively reflect the uptick in economic activity seen in 2017 for 2018’s revenues;
- Interfund/Overhead service costs in the General Fund are applied throughout the organization and are revised higher in 2018, due to increases in the cost of those services;
- Existing labor contracts provide for increases and movement within existing ranges;
- Cost of living adjustments have been reflected for non-represented staff within the salary line items when, in prior years, this was accounted for in contingency;
- Contributions to Street Operation, Equipment Reserve, Debt service and the Unemployment Reserve continue.

## Fund Balance and Reserves

The City has a fund balance policy for the General Fund and Street Operations that provides guidelines for our long-range financial plans. These operating ending fund balances should include adequate amounts for revenue fluctuations, cyclical activity, economic uncertainty, emergencies, and potential future liabilities. The proposed 2018 Budget provides for projected fund balances of \$2.14ml that meet those guidelines for both the General Fund and Street Operations (\$1.90ml and \$234k, respectively). This ending fund balance, plus \$766k estimated year-end fund balance for the Equipment Reserve Fund, continues to keep the City in a strong financial position. It should be noted that the projected ending fund balance for our Equipment Reserve, which requires a minimum of 2.5 years of scheduled replacement amounts, does not meet policy but we are making steady progress toward compliance (ending at 92% of minimum in 2018 vs 61% at the beginning the year). We continue to implement a plan to build this reserve and future budgets should gradually reflect a balance more consistent with the policy (compliance is currently expected by 2019, depending on updated equipment needs).

## Personnel Services

Given that the City is primarily a service business, salaries and benefits paid to the City's employees total 47.7% of total operating expenses. In the General Fund, employee salary and benefit costs represent 70% of our total expenses (excluding transfers). This percentage is reflective of the general services provided by the General Fund, such as police, parks, and general government while the total city percentage includes the City's water and sewer utilities, which also include a significant amount of physical infrastructure, and its other funds, such as reserves. The chart below shows the City's historical staffing costs and reflects the 2018 changes.

	Actual 2014	Actual 2015	Actual 2016	Forecast 2017	Budget 2017	Budget 2018	2018 - 2017 %
<i>Budgeted positions (FTE, not including Council)</i>	76.17	76.17	75.42	76.56	76.56	78.18	2.1%
OFM Census	6,910	6,915	7,075	7,280	7,280	7,498	3.0%
<i>Employees per 1000 OFM Population</i>	11.0	11.0	10.7	10.5	10.5	10.4	-0.9%
					<i>staff estimate 3% inc. *</i>		
Salaries	\$ 5,100,693	\$ 5,090,953	\$ 5,316,955	\$ 5,362,670	\$ 5,389,280	\$ 5,636,005	4.6%
Benefits	\$ 1,957,763	\$ 2,020,530	\$ 2,194,671	\$ 2,364,956	\$ 2,434,191	\$ 2,589,018	6.4%
<b>Total Comp</b>	<b>\$ 7,058,456</b>	<b>\$ 7,111,483</b>	<b>\$ 7,511,626</b>	<b>\$ 7,727,626</b>	<b>\$ 7,823,471</b>	<b>\$ 8,225,023</b>	5.1%
<i>Year over Year % Increase</i>		0.8%	5.6%	2.9%	4.2%	5.1%	
Benefits as % Salaries	38%	40%	41%	44%	45%	46%	1.7%
Benefits as % Total Comp	28%	28%	29%	31%	31%	31%	1.2%
City Wide Operating Funds	\$ 13,478,361	\$ 13,730,963	\$ 14,332,439	\$ 15,440,496	\$ 16,324,387	\$ 17,255,466	
<b>Total Comp as % Op Budget</b>	<b>52.4%</b>	<b>51.8%</b>	<b>52.4%</b>	<b>50.0%</b>	<b>47.9%</b>	<b>47.7%</b>	-0.5%

The increases in the benefits category over time are the result of health care and retirement increases which are offset by moderately growing revenues. Total City-wide compensation costs are projected to increase by 5.1%. That said, the proposed staffing per thousand residents is below 2014 levels and has remained relatively consistent over the last five years.



Salaries and benefits for all bargaining units reflect the 2018 provisions negotiated in contracts approved by the City Council. All contracts will expire at the end of 2018. You will see funds dedicated to negotiating the three contracts in the 2018 Human Resources budget.

Although our non-union employees salaries are performance based and do not include “step increases” the proposed budget includes similar salary increases for these employees. Approximately 1.5% additional has been included for this group within the salary budgets and another 2% for merit/salary adjustment increases is included in our contingency. We plan on updating the salary survey information for this group in 2018 and have dedicated funds toward that effort.

As Council is aware, the cost of benefits has increased at an unsustainable rate over the years (32% over 2014). Unfortunately, the City does not control state mandated increases in worker’s compensation rates and retirement contributions. The continued strain on City expenditures includes year over year increases in PERS rates (13% for 2018) and LEOFF rates (3%). Interestingly enough, health insurance costs remain relatively flat in 2018, as our insurance providers worked to contain costs to adhere with the Affordable Care Act rules. As part of these measures, AWC has eliminated the current health plan for non-union employees, effective December 31, 2017. The new plan reduces benefits to the employee but also reduces benefit costs for the City.

As an additional way to save on benefit costs, a program to voluntary opt-out of health insurance for the non-union group was implemented in 2017. The City provides a monetary incentive to the employee opting-out to cover the costs of signing up with another qualified plan. The option is only allowable for non-union staff. This incentive is only a portion of the cost of providing insurance under the City paid plan. We anticipate the maximum allowable of five employees taking advantage of this voluntary option in 2018.

### **Transitions in Staffing**

2015 through 2017 we saw the transition of several key senior management positions. The next several years will mark other transitions in the organization. Budgetary provisions have been included in the 2018 Budget for the anticipated vacancies and cross training of replacement staff. So, the City has and will continue to implement a variety of options for addressing vacancies as set forth in our succession planning processes developed by each section of our operations.

### **Utilities**

In 2013, we commissioned master plan updates for our Water and sewer systems and a study of utility rates. The study, in consideration of the new master plans, indicated the need for an annual revenue increase of 4% over a period of 6 years, whether this was achieved through growth, structural changes, actual rate increases or a combination. Utility rates not only support operations, they support our master plans, our Capital Improvement Plan and debt service, as well.

The proposed budget includes minor rate increases for water only and the implementation of the rate structure changes to allocate the proposed increases in an equitable and consistent fashion. The water rate increase is important to maintain the financial health of our utility operations and to

meet our current and future debt service requirements, while also maintaining our target reserve levels. Smaller rate increases over time help to avoid large jumps in rates that are more challenging for customers to afford in the long run and demonstrate the proactive management of our utility operations. We propose to continue a low income discount policy that reduces utility bills for those who qualify for the rate reduction.

The debt service requirements next year for the sewer and water funds are \$785k and \$115k, respectively. We have projects planned for both ongoing and major repair and replacement. Total capital project costs for the sewer fund are \$1.5ml and \$1.8ml for the water fund. We discuss individual projects in the capital projects and utilities section of the detailed budget.

### Community Requests for City Funding

Each year, as a part of the budget process, the City considers requests for service contracts from the community. The City also contracts with the Sequim-Dungeness Valley Chamber of Commerce to operate the Visitor Information Center. The 2018 budget recommendations for the Human Services Contracts are consistent with amounts budgeted in 2017. In 2017, the City was in its final year of this 3-year contract. We propose to consistently fund Human Services until that contract is renewed. The recommendation for the Chamber of Commerce Visitor Information Center is slightly higher than the prior year to reflect overall increasing costs. The City also has a 3-year agreement (2016-2018) with the YMCA to support social, cultural, recreational and educational programs and services, especially for disadvantaged families. This support is also reflected in the budget.

The recommended budget allocations for outside agencies are as follows:

Chamber of Commerce Visitor Information Center (lodging tax funds)	\$ 81,476
Human Services Contracts	\$ 75,000
YMCA (Parks Restricted funds)	\$ 30,000
"Service Fest" Contribution	\$ 20,000
Small Business Development Corporation	\$ 6,000
Economic Development Corporation	\$ 10,000

The City has also appropriated \$20,000 (funded partially with donations) toward a 4<sup>th</sup> of July Community Celebration, given that 2018 will be the first year discharging fireworks within the City limits is prohibited by law.

### Civic Center Debt Service

The City's related General Obligation debt (over 30 years) is approximately \$660,000 annually. Funding sources for the 2018 budget are compared to the 2017 mid-year amended budget below:

Funding Source	2017	2018
Public Safety Tax	\$245,000	\$255,000
REET Transfer	75,000	75,000
General Fund	345,000	335,000
<i>Total (before budget amendment)</i>	<i>\$665,000</i>	<i>\$665,000</i>

General Fund Excess Fund Balance/Revenues (mid-year amend)	40,000	
Total	\$705,000	\$665,000

As Public Safety Tax continues to grow, contributions to debt service will also until they approximate at least 40% of total debt service.

The Utility Revenue bond debt service (over 20 years) related to the Civic Center is \$225,000, annually. When feasible, the City plans to build reserves to enable pre-payment of Civic Center related debt.

### Key Policy Decisions

I have submitted the proposed 2018 Budget after substantial review and discussion. I am comfortable that the proposed budget balances the long-term needs of the City with the current economic reality and financial trends. I am also excited that this budget contains appropriations to further develop staff, and aggressively address community issues and other council priorities.

However, the City Council's role is to review my judgments and make the final policy decisions. Some key decisions that require your review and final decision are the following:

- My recommendation, consistent with prior years, to increase the property tax levy by the allowed 1%;
- Proposed Water and Sewer rate and structure changes; including general facility charges;
- Proposed capital projects;

### Conclusion

This budget addresses the City's highest priorities for service and capital needs for 2018 and will allow us to achieve our key goals.

Preparation and adoption of the budget is a team effort involving nearly every employee in our organization and every City Council member. Thank you to our staff for their willingness to submit realistic budget requests and to develop alternatives to meet Council priorities. Thanks especially to the Finance Department for its assistance in the preparation of this budget. Finally, thank you City Council for your leadership in moving ahead on numerous issues, including identifying your goals and priorities, and for your adoption of financial policies and prudent financial guidance that resulted in the foundation for this proposed 2018 Budget.

Sincerely,



Charlie Bush  
City Manager







## SEQUIM CITY COUNCIL PRIORITIES 2017 - 2018

### SEQUIM VISION STATEMENT

Sequim will maintain its friendly, small-town lifestyle and overall high quality of life, as it continues to grow and develop as the cultural and civic heart of the Sequim-Dungeness Valley and as a center of commercial, recreational, educational and medical services.

### CITY COUNCIL SHORT-TERM PRIORITIES (1 - 2 YEARS)

- Fund and implement the Transportation Plan
- Renew the Transportation Benefit District
- Update Emergency Preparedness Plan and continue work with regional partners
- Develop a holistic neighborhood plan for delivery of infrastructure improvements and services, including code enforcement, crime prevention, human services, and affordable housing
- Complete improvements to the Guy Cole Center and seek community funding for the kitchen and breakout rooms

### MID-TERM PRIORITIES (3 - 4 YEARS)

- Evaluate additional components to the transportation plan, including local improvement districts and possible maintenance of private streets
- Further parks development, as outlined in the Parks Master Plan, and explore a regional parks funding system
- Update Sequim Municipal Code
- Assess the pros and cons of a biennial budget cycle
- Investigate options for becoming a solar community
- Develop a technology adaptation plan
- Work with community partners to increase activities for local youth

### LONG-TERM PRIORITIES (5 YEARS PLUS)

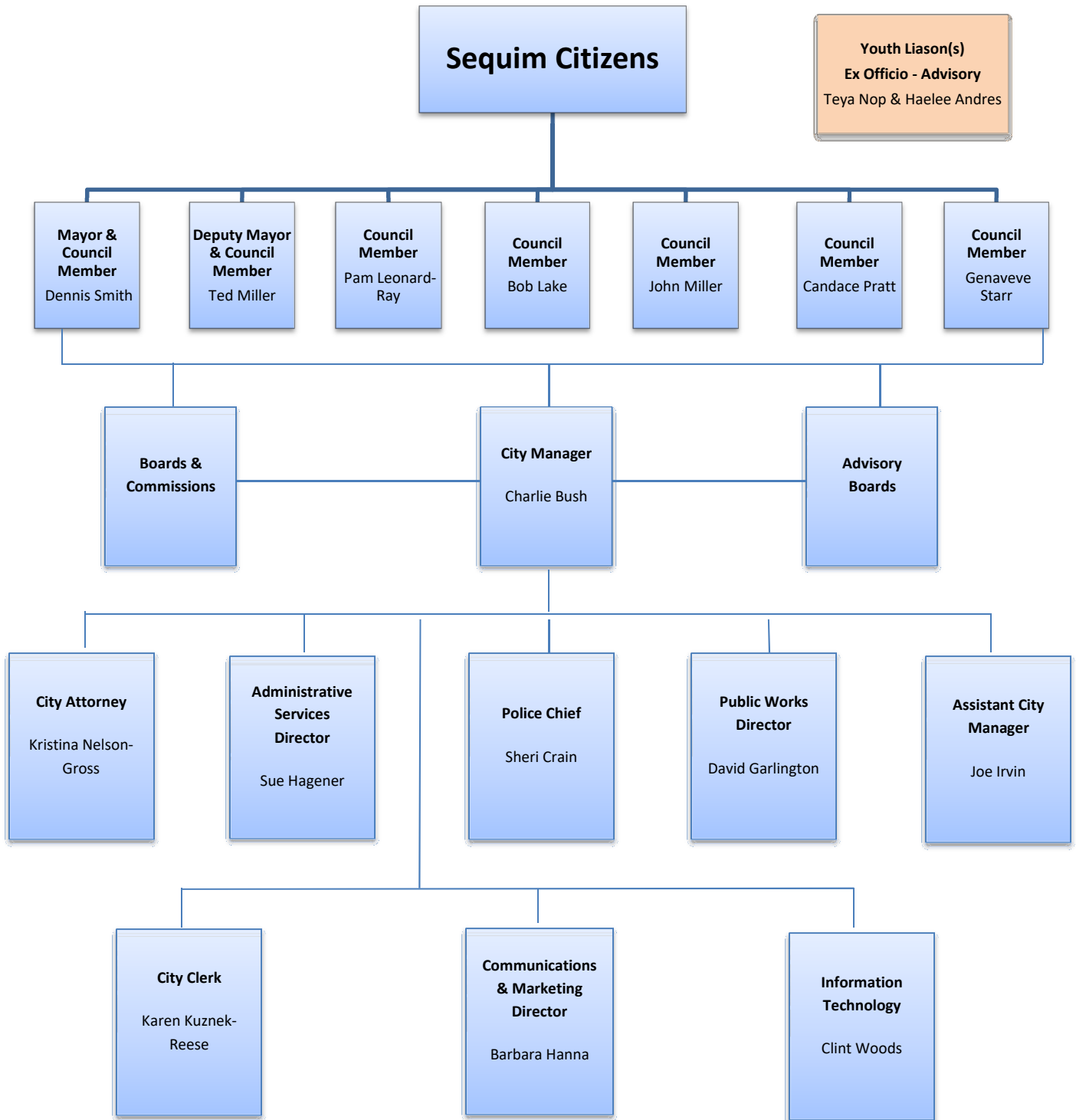
- Identify and implement ways to reduce solid waste
- Realize an emergency medical facility
- Develop long-term water resources, including solar to make reuse water potable

### CRITICAL SUCCESS FACTORS

- Community Alliances and Partnerships
- Quality Services and Facilities
- Effective Community Relations and Communications
- Professional and Committed Workforce
- Innovative Leadership and Strategic Planning
- Healthy, Safe, and Vibrant Neighborhoods
- Economic Sustainability, Vitality, and Financial Stability
- Environmental Sustainability



**City Of Sequim  
Organizational Chart  
As of August 1, 2017**



**CITY OF SEQUIM  
2018 BUDGET  
COUNCIL/MANAGER FORM OF GOVERNMENT**

**COUNCIL**

**DENNIS SMITH (Mayor)**

**JOHN MILLER**

**PAM LEONARD-RAY**

**GENAVEVE STARR**

**Ex Officio - Advisory**

**TEYA NOP (YOUTH LIAISON)**

**TED MILLER (Deputy Mayor)**

**BOB LAKE**

**CANDACE PRATT**

**HAELEE ANDRES (YOUTH LIAISON)**

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**CITY MANAGER**

**ASSISTANT CITY MANAGER**

**DEPARTMENT HEAD**

ADMINISTRATIVE SERVICES DIRECTOR

CHIEF OF POLICE

CITY ATTORNEY

CITY CLERK

COMMUNICATIONS & MARKETING DIRECTOR

INFORMATION TECHNOLOGY DIRECTOR

PUBLIC WORKS DIRECTOR

CHARLIE BUSH

JOE IRVIN

SUE HAGENER

SHERI CRAIN

KRISTINA NELSON-GROSS

KAREN KUZNEK-REESE

BARBARA HANNA

CLINT WOODS

DAVID GARLINGTON

**MANAGER/BUDGET STAFF**

**ADMINISTRATIVE SERVICES**

Deputy Administrative Services Director

Accounting Project Manager

Accountant

Accounting Assistant

Accounting Assistant

Accounting Assistant

Connie Anderson

Karen Turner

Barbara D. Hannah

Vicki Kingsolver

Ann Holgerson

Wells Hutchins

**CITY ADMINISTRATION**

Community Development Manager

Human Resource Analyst

Legal Assistant

Barry Berezowsky

Lajay Gove

Erika Hamerquist

**POLICE**

Staff Sergeant

Executive Admin Assistant

Sean Madison

Victoria Ormand

**PUBLIC WORKS**

City Engineer

Operations Manager

Utilities Manager

Management Analyst

Resources Manager

Matt Klontz

Ty Brown

Pete Tjemsland

Sarah VanAusdle

Ann Soule

**CATEGORY 2 CODE CITY, CLASSIFIED UTILITIES**

**2010 OFFICIAL CENSUS 6,606  
2017 OFM ESTIMATE 7,280**



## 2018 Budget Calendar

January	Council Advance to Establish Priorities Management Retreat to Review Council Priorities
March-June	Staff preparation of Capital Improvement Plan Staff preparation of Budget Software Staff preparation of 2017 Forecast (establishes 2018 Beginning Fund Balances)
April	2016 Year-End Financial Results
May	Q1 2017 Financial Results
June	Council Input on Programs, Budget Calendar and Budget Policy Review Staff completes 2017 Forecast
July	Council Adopts of 2018-2023 CIP 2017 Mid-Year Financial Review Staff engages in "Budget Scrub"
August	2017 Mid-Year Budget Amendments
September	Preview of 2018 Rates and Fees Proposed City Manager Budget delivered to City Council with Citywide Overview
October	Proposed City Manager Budget – Review of Departments Proposed City Manager Budget – Review of Capital Projects
November	Public Hearings and Adoption of Revenue Sources, Rates & Fees, Property Tax Levy and 2018 Budget

# 2018 Budget Calendar for Cities and Towns

The annual budget process requirements for cities and towns are listed in chapter [35.33 RCW](#) and for code cities in chapter [35A.33 RCW](#).

This calendar provides the statutory deadlines for each of the budget preparation steps. Throughout chapter 35.33 RCW and 35A.33 the statutes read “on or before” or “at least \_\_\_ days before”; therefore pursuant to budget law, these budget steps can be taken before the dates listed on the calendar. Pre-budget items have been included as recommendation only and are not part of the budget statutory requirements.

We recommend that each city and town develop a time line that best meets their needs, assures compliance with the statutes, and provides sufficient time to prepare this vital financial plan.

<b>June–August</b>	<b>Pre-Budget Items</b> Council retreat Update and/or adopt financial policies Public hearings for capital facility plan updates Public forums or community outreach (ex: community priorities) Mayor/Manager communicate budget objectives to staff
<b>September</b>	<b>Sept 11</b> Budget request to all department heads. <b>Sept 11–25</b> Department heads prepare estimates of revenues and expenditures. Clerk prepares estimates for debt service and all other estimates. <b>Sept 25</b> Budget estimates from department heads filed with clerk
<b>October</b>	<b>Oct 2</b> Clerk provides estimates filed by department heads to Mayor/Manager showing complete financial program. Mayor/Manager provides Council with estimates of revenues from all sources including estimates prepared by clerk for consideration of setting property tax levy. <b>Mid-October to Mid-November</b> Suggested public hearing on revenue sources including possible increases in property tax.
<b>November</b>	<b>Nov 2</b> Mayor/Manager prepares preliminary budget and budget message. Files with clerk and council. <b>Nov 2–20</b> Publication notice of preliminary budget and final hearing. <b>Nov 2–29</b> Public hearing(s) on preliminary budget. Public hearing on revenue sources for levy setting. <b>Nov 20</b> Copies of budget available to public <b>Nov 30</b> Property tax levies set by ordinance and filed with the County
<b>December</b>	<b>Dec 4</b> Final budget hearing <b>Dec 29</b> Budget Adoption

A detailed explanation of the budget preparation requirements, deadlines, and procedural tips are provided on the MRSC webpage: [Budget Preparation Procedures for Cities and Towns](#).

<input checked="" type="checkbox"/> <b>ADOPTED BY COUNCIL:</b> FEBRUARY 22, 2016	<b>EFFECTIVE DATE:</b> FEBRUARY 22, 2016
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## **I. PURPOSE**

The purpose of this policy is to help guide the budget development process. There may be differences between this policy and the budget based on the uniqueness of each year's budget.

The City allocates scarce resources to programs and services through the budget process. The budget process is more than balancing revenues and expenditures one year (two year if biennium) at a time. In addition to being a short-term operational plan, it is the primary means for implementing the City's strategic plan. The budget authorizes the level of City services for the year (or biennium), as defined by the City's goals, priorities and objectives and adjusted for the constraints identified in the long range financial plan.

The link between the strategic plan, long range financial plan and the budget can be challenging. Strategic planning sets overall direction for the City, defining what is to be accomplished through its use of resources by identifying the City's goals, priorities and objectives. The long range financial plan positions the City to remain effective over the long term.

## **II. POLICY – GENERAL**

1. Budget at Fund Level: Budget adoption by the City Council shall be at the fund level. Any changes in appropriations at fund level require City Council approval.
2. Balance Ongoing Revenues with Ongoing Expenses: Current revenues, including unencumbered fund balances should be sufficient to support current expenditures. Although Fund Balance is considered revenue, its use in balancing the budget should be restricted to special situations, such as one-time expenditures or carry-over of prior year funded project (see Reserves/Fund Balance Policy for more guidance).
3. City Council Goals Identified in Annual Workplan: The City Council identifies specific goals as part of the City's workplan. Departmental budgets should include adequate resources to accomplish those goals in the expected timeframes.
4. Municipal Service Levels: The City Council will establish municipal service levels and priorities prior to and during the development of the preliminary budget. The following will be taken into consideration to determine the proper levels of service:



- a) Maintain Quality Service Programs: If expenditure reductions are necessary as a result of changing economic status, selective service elimination is preferable to across the board cuts which can result in poor or marginal quality programs.
- b) New Programs and Services: Adding new programs and services that require additional resources should be limited to the extent that they can be reasonably funded over the near-to-long-term given the current revenue stream.
  - i) Funding New vs Existing Programs: If new sustainable funding is not available, then new or enhanced services will compete directly with maintaining existing programs in determining the appropriate allocation of resources. This will provide the best mix of services to citizens and keep pace with the changing needs of the community.
  - ii) Adding Fee for Service Revenues: Where practical, new services that provide private benefit should be supported by new fees instead of increasing general City taxes.
  - iii) Programs with Dedicated Funding: Programs that are funded through a dedicated revenue source (i.e., grants or other non-tax revenue), that meet the goals of the City Council, will receive priority consideration, as long as ongoing funding is addressed.
- 5. Cost Allocation: The full cost of providing central support services shall be allocated to other funds and capital projects, and if appropriate to grants and specific programs. Indirect costs are calculated for General Fund Departments, but are not allocated. These indirect costs will be considered in evaluating the total cost of programs.
  - a) Meet Federal Indirect Rate Requirements: The cost allocation plan should meet Federal requirements (OMB Circular A-87) to allow for indirect cost recovery on Federal and State grants.

## **II. POLICY – REVENUES**

- 1. Baseline Revenues: Significant revenues that contain variable components related to economic activity, such as development, or other one-time, non-recurring or unusual items should be identified in order to determine baseline revenues. The variable component of revenues should not be used for ongoing operating programs and services.
  - a) Property Tax: Tends to be stable; contains an unpredictable component for new construction and annexation; can be impacted by zoning changes
    - i) Variable Component: new construction and annexations in year added to the tax roll (tax is based on levy rate instead of 1% increase)

- b) Sales Tax: Minimum base tends to be stable; contains an unpredictable component related to economic changes, particularly the “boom and bust” housing cycles
    - i) Variable Component: consider construction sales tax above 10 year average; other sales tax above 3% growth; may need to adjust based on economic conditions or changes in tax base such as new stores or the closing of stores
  - c) Utility (B&O) Tax: Tends to be stable; subject to changes in utility rates, usage, conservation, regulations
    - i) Variable Component: not significant; no exclusions unless specific situations warrant an exclusion
  - d) Interfund Service Charges: Minimum base tends to be stable; contains an unpredictable component related to capital projects
    - i) Variable Component: capital projects above 5 year average; may need to adjust based on unusual large projects or economic conditions
  - e) Development Related Fees: Minimum base is difficult to determine, large unpredictable component related to “boom and bust” housing cycles
    - i) Variable Component: consider amounts above 10 year average or 3% growth based on economic conditions
  - f) Interest Earnings: Interest on minimum fund balance may be included for baseline revenues.
  - g) Potential New Revenues: Proposed new revenues that are early in the Council review process are typically not included in the budget. Public input may change the process and revenues may be difficult to quantify. If Council provides a quantifiable commitment to adopt new revenues they could be included in the budget.
    - i) Unknown Component: excluded unless Council provides quantifiable commitment
2. Limit Use of One-Time Revenues: Revenues that are not predictable should be identified and should not be used for ongoing operating program and services.
- a) Types of One-time Revenues: This includes significant revenues from sales of assets, bond refunding savings, infrequent intergovernmental revenues, grants, and so forth. It also includes the variable component of taxes and other revenues.
  - b) Use of One-Time Revenues: The use of significant one-time revenues should be set aside in reserves or restricted to non-recurring expenses,

such as, research/analysis projects, expenses caused by transition, startup costs, capital projects, debt retirement, and so forth.

3. Revenue Diversification: The City will strive for a diversified mix of revenues to handle fluctuations in revenues and to better distribute the cost of providing services.
  - a) Analysis Factors: When evaluating diversification, the following factors should be considered:
    - i) Balance amongst taxpayers and ability to diversify tax base such as changes in zoning
    - ii) Sensitivity of revenues to changes in economic cycles and rates
    - iii) Fairness of the tax or fee
    - iv) Regulations or changes in state shared revenue distributions
    - v) Impact on economic growth
    - vi) Other, such as administrative aspects
  - b) Taxes Should be Balanced: When City taxes are changed (increased, decreased, extended) the following factors should be considered:
    - i) Stability of tax source over its expected life; suitability for pledge against future debt if that is part of the intent
    - ii) Spread of tax burden throughout the City's tax base through a broad array of taxes
    - iii) Tax impact to both residential and business taxpayers and its affect on future growth
    - iv) Investigation of mitigation for inequities or hardships, such as low-income deferrals, rebates or exemptions
4. Unrestricted Revenues Should Remain Unrestricted: Unless otherwise stated specifically by City Council, unrestricted resources should not be earmarked for specific purpose in the General Fund. This will preserve the ability of the Council to determine the best use of available resources to meet changing service requirements.
5. Interfund Services (Cost Allocations): Indirect costs include general management, facility and equipment costs, and operational costs that are pooled. These costs are accounted for in central support service centers and should be fully allocated to funds that benefit from the services, such as Enterprise Funds, Capital Projects and selective Special Revenue Funds or specific programs where appropriate. Grant applications should include indirect costs where allowed. Indirect costs of General Fund operating units will be calculated for use in evaluating program costs but will not be allocated.
6. Fee for Service Revenues: As much as reasonably possible, City services that provide private benefit or service limited interests should be supported by

- fees and charges in order to provide maximum flexibility in use of general City taxes to meet the cost of services of broader public benefit.
- a) Recover Full Cost: Fees should be set to recover full costs, including all direct costs and indirect costs (capital costs, department overhead and city-wide overhead (cost allocations)).
  - b) Justify Subsidy: Charging less than full costs results in using general city taxes to subsidize the cost of the service. A subsidy must be justified, and may be considered if it meets other City interests and objectives, such as remaining competitive. Intentional subsidies will be documented and periodically reviewed with City Council.
  - c) Cost Studies: Departments that impose fee for service charges should periodically prepare and update cost-of-service studies. These studies may be performed and documented internally. An external consultant may be required for complex studies or where fee surveys are not available or where fees may be contested.
  - d) Human Needs Type Services: Exception may be considered for human needs type services to persons with limited ability to pay.
7. Intergovernmental Revenues: The City should take advantage of opportunities to enhance service delivery through intergovernmental cooperation, shared revenues and grants. However, this revenue should be treated as temporary, uncertain or unpredictable revenue.
- a) Not for Ongoing Basic Services: Typically intergovernmental revenues and grants will not be used to fund ongoing basic service needs. If grants are for new, enhanced or discretionary services, then the service may need to be reduced or eliminated when the funding ends. Before accepting a grant, consideration should include not only the cost/benefits over the life of the grant, but the cost of interruption in service when the grant ends.
  - b) Capital Projects Consistent with Plan: Grants for capital improvements should be for priority projects or projects consistent with the capital improvement plan. The project should consider resources to support ongoing maintenance, operating, and replacement costs. The grant application should attempt to recover all costs, including ongoing maintenance, operating costs and replacement costs, as well as indirect costs. If a city match is required, this should be reviewed in light of other competing projects.

## **II. POLICY – EXPENSES**

1. Baseline Expenses: Significant expenses that contain variable components related to economic activity, such as development, and other one-time or unusual items, should be identified in order to determine baseline expenses. The variable component of expenses may be funded by associated variable revenue or by one-time revenues and reserves (see Reserves/Fund Balance Policy).
  - a) Include Maintaining Facilities and Equipment: Maintenance of facilities, technology infrastructure, operating equipment and vehicles, as well as the planned replacement of such assets should be included as baseline operating expenses. The amount included as baseline operating expenses will be determined by the Capital Improvement Plan Policy.
    - i) Lowest Life Cycle Costs: When practical, resources should be allocated for selective preventative investments that can be made to avoid even larger costs in the future.
    - ii) Funding Continuous Replacement: The use of short-term financing or lease/purchase arrangements should be minimized because of the ongoing requirement for operating equipment. (See Capital Improvement Plan Policy, Debt Management Policy.) The amount necessary to fund equipment reserves will take into account both financing and transfers to Equipment Reserves.
  - b) Include Interfund Operating Transfers: Transfers to operations, such as Street Unrestricted, should be included as baseline operating expenses if General Fund is a significant revenue source for another operating fund.
  - c) Exclude Interfund Capital and Reserve Transfers: Transfers for capital projects or to replenish reserve funds should be excluded from baseline operating expenses and would be funded by one-time or excess revenues.
  - d) Exclude Community Investments: Discretionary investments for community/public benefit are excluded from baseline operating expenses. Funding from one-time revenues would be decreased if total baseline revenues fall or baseline expenses increase by 5% or more.
    - i) Funding Level Health & Human Services: The amount of funds available will fluctuate based on the City's financial situation. Council may want to consider a separate funding policy based on a percent of



sales tax revenues, such as 2%, or an amount per capita, which would be reviewed along with the funding criteria.

- ii) Funding Level Community Service Contracts: The amount of funds available will fluctuate based on the City's financial situation and service needs. Funding will be included in the City Manager's proposed Budget based on criteria for similar expenses. They will be included if they address services or facilities that support the city's mission and are a high priority compared to other options and proposed expenditures.

2. Personnel: This is the most significant operating expense.

- a) Competitive Compensation: Salaries and benefits should be comparable to cities and private sector employers that are within the same labor market and with other cities or private sector employers that offer comparable quality services in order to attract and retain high quality staff.
- b) Union Contract Negotiations: If a collective bargaining agreement is, or will be, under negotiations, then a specific amount will not be included in the budget for potential wage adjustments resulting from the negotiation, other than continuing the basis for a COLA adjustment, except a negative COLA will not be budgeted. This is to protect the City from any claims of not "bargaining in good faith". Funding for unknown contract terms must be considered in balancing ongoing revenues with ongoing expenses.
- c) Fluctuation in Staffing Requirements: Additional personnel resources needed for large projects or responding to a "housing" cycle boom may be retained on a temporary, term (non-permanent employee) or contract basis.

3. Technology Investments that Forestall Adding Permanent Staff: Recognizing that personnel related expenditures represent the largest portion of the City's budget, methods to increase efficiency and effectiveness of the delivery of City services through technology improvements should receive priority funding if it can forestall the addition of permanent staff.

4. Contingency: The budgeting for contingencies will be separately identified within each fund. An amount for General Fund contingencies will consider amounts across all departments in which only 50% of the costs are included, since all contingencies are not expected to occur.

**III. PROCEDURE**

1. City Council: The City Council has final responsibility for approving the annual Operating Budget.
2. City Manager: The City Manager oversees the budget development process and proposes the preliminary budget to City Council.
3. Departments: The Department directors under the guidance of the City Manager are responsible for proposing programs, recommending funding levels, and formulating budget proposals for implementing service programs in accordance with established goals and directives.
4. Finance: The Finance Department is responsible for coordinating the overall preparation and administration of the City's budget in compliance with applicable State of Washington statutes governing local government budgeting practices.
  - a. The Finance Department provides revenue budget estimates, assists department staff in identifying budget problems and formulating alternative solutions, and prepares and distributes the final budget document.
  - b. The operating budget is classified and segregated according to a standard classification of accounts as prescribed by the State Auditor.
5. Public Hearings: The Council will hold public hearings as required and approve operating and capital budgets prior to the end of the fiscal year in accordance with State law.
6. Quarterly Reporting: The Finance Department will maintain a system for monitoring the City's budget performance. This system will provide the City Council with quarterly reports regarding fund level resource collections and department level expenditures.
7. Budget Amendments: Semi-annually budget amendments will be presented in order to address unanticipated needs, emergencies, or compliance with State of Washington budgetary statutes. Budget amendments requiring City Council approval will occur through a process coordinated by the Finance Department. Significant financial issues that need to be addressed between quarterly reports will be provided to Council as warranted.

**IV. REFERENCES**Sequim Municipal Code or Resolutions

- Resolution R-2009-15 Establishing Criteria for Grant Funding to Agencies through United Way (Health and Human Services Funding Criteria)

Revised Code of Washington

RCW 35A.33 provides the authority and the requirement for a code city to adopt a comprehensive annual budget prior to the start of each fiscal year.

- RCW 35A.33 Budgets in code cities
- RCW 35A.34 Biennial budgets

State Auditor's Office:

- Budget, Accounting and Reporting System (BARS) Manual, Part 2 Budgeting Chapter 1 – 3
- Small City Handbook, Section E - Budgeting

Professional Groups:

- National Advisory Council on State and Local Budgeting (NACSLB)
  - Recommended Budget Practices Element 4 Adopt Financial Policies



## Financial Policies Fund Balance & Reserve Policy for General Fund and Street Operations, Special Reserves and Utility Funds

<input type="checkbox"/> <b>ADOPTED BY COUNCIL:</b> FEBRUARY 22, 2016	<b>EFFECTIVE DATE:</b> FEBRUARY 22, 2016
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### I. PURPOSE

The purpose of this policy is to provide a targeted range for fund balance and reserves to help position the City and its functional units to respond to economic fluctuations, prepare for expected and unexpected liabilities, and to take advantage of economic opportunities. This policy is intended to establish an understanding of the proper level and use of those reserves for the City of Sequim.

Adequate levels of fund balance or reserves are essential to protect against temporary revenue shortfalls and helps to ensure stable taxes and fees. It provides resources criteria crucial in long-term financial planning. The value of strong fund balances and reserves needs to be balanced with pressures from unions, taxpayers and citizens' groups, which may view high levels of fund balance as "excessive."

For the City of Sequim, fund balance equals cash (which includes cash and investments held by the City) as the city reports and budgets financial activity on a cash basis

The City of Sequim follows BARS (the Budgeting, Accounting and Reporting System) promulgated by the State of Washington which includes the prescribed uniform charts of accounts, accounting and budgeting policies, guidance for preparing financial statements and instructions for preparing supplemental year end schedules (Revised Code of Washington Section 43.09.230) for local governments.

Fund Balance and Cash and/or Investments is defined in the BARS Manual as follows:

#### **308.10 RESERVED**

The amounts of cash and investments with specific purpose or use restrictions imposed on them by external parties (e.g., enabling legislation, grantors, creditors, etc.) or from formal internal commitments. Internal commitments are specific constraints imposed by the highest level of government (board of commissioners, city council, board of directors, board of supervisors, etc.) through the most formal binding action (ordinance, resolution) that require a similar formal action on the same level to remove them. Limitations resulting from intended use (informal action) by either legislators or managers are not sufficient to classify the resources as reserved. These resources should be reported as unreserved.

#### **308.80 UNRESERVED**

The amounts of cash and investments without any limitations on their use and resources with informal limitations placed on them by either legislators or managers.



## **Financial Policies Fund Balance & Reserve Policy for General Fund and Street Operations, Special Reserves and Utility Funds**

The City of Sequim has the following fund structure:

**General Fund and Streets Unrestricted Fund** (funds available for general government operations)

### **Capital Funds**

Equipment Reserve (funds set aside and available for General Government equipment replacement)

Real Estate Excise Tax (REET) 1 (funds restricted as to use on capital facilities)

Facilities (funds set aside for City Hall and other facility related capital projects)

### **Enterprise Funds**

Water Unrestricted (restricted to Water Operations)

Water Restricted (restricted to Water Capital, Debt Service and Equipment Replacement)

Sewer Unrestricted (restricted to Sewer Operations)

Sewer Restricted (restricted to Sewer Capital, Debt Service and Equipment Replacement)

**Special Revenue Funds** (restricted by law or City Ordinances, no targeted reserves)

Street Restricted, Lodging Tax Hotel / Motel, Criminal Justice, Police Restricted

Police Asset Seizure, Parks Restricted, Real Estate Excise Tax (REET 2), Gifting & Donations

### **Internal Service Funds**

Unemployment Claims Reserve

**Trust, Agency & Permanent Funds** (funds not available for City services)

Police Expendable Trust, Flexible Spending Benefits, Utility Deposits, Construction Deposit, Intergovernmental Agency Fund, Haller Park Fund Permanent

**City Targeted Reserve Funds**: The City uses the following classifications:.

1. **Minimum Fund Balance Reserves** : Provides a financial cushion for revenue fluctuations and cyclical activity through General Operations.

- a) **Targeted Fund Balance**



## Financial Policies

### Fund Balance & Reserve Policy for General Fund and Street Operations, Special Reserves and Utility Funds

	Min	Max
General Fund and Streets	15% ongoing revenues	20% ongoing revenues
Water Unrestricted	3 months operating expenditures	5 months operating expenditures
Sewer Unrestricted	3 months operating expenditures	5 months operating expenditures

2. **Economic Uncertainty Reserves:** Provides a financial cushion against unanticipated adverse financial or economic circumstances, emergencies, or litigation.
- a) **Targeted Reserve:** The maximum fund balance should take into consideration level of volatile revenues, such as Development related revenues (Building Permits, Inspections, Plan Check Fees, other Development Fees) and Sales Tax.

	Min	Max
General Fund and Streets	1% ongoing revenues	3% ongoing revenues
Water Unrestricted	1% ongoing revenues	3% ongoing revenues
Sewer Unrestricted	1% ongoing revenues	3% ongoing revenues

3. **Future Liabilities Reserves:** These amounts are set aside for a specified purpose, related to an accrued obligation or to self-insure for a future obligation. This should include reserves for a portion of accrued compensation (paid time off and sick leave) that is paid to an employee upon separation from employment.
- a) **Targeted Reserve:** The amount necessary to mitigate a specific future expense is based on a historical pattern or other appropriate measure. Accrued compensation is based on historical patterns or other appropriate measure.

	Min	Max
General Fund and Streets	1% ongoing revenues	3% ongoing revenues
Water Unrestricted	1% ongoing revenues	3% ongoing revenues
Sewer Unrestricted	1% ongoing revenues	3% ongoing revenues

## Financial Policies

### Fund Balance & Reserve Policy for General Fund and Street Operations, Special Reserves and Utility Funds

4. **Facilities and Equipment Reserve Funds:** Established to purchase, replace or refurbish City facilities and operating equipment such as computers, copiers, operating equipment and vehicles (see Capital Improvement Plan policy).
- a) **Targeted Reserve Fund Balance:** Maintained at a level sufficient to meet scheduled equipment replacement so as to sustain an acceptable level of services.

	Min	Max
Equipment Replacement (General Government)	2.5 years scheduled replacement	6 years scheduled replacement
City Facilities	2.5 years scheduled replacement	6 years scheduled replacement
Water Restricted	2.5 years scheduled replacement	6 years scheduled replacement
Sewer Restricted	2.5 years scheduled replacement	6 years scheduled replacement

## II. PROCEDURES

1. **Ongoing Revenues and Operating Expenditures:** Reflects the ongoing operations and excludes one-time, nonrecurring and capital items. (See Budget Development Policy.)
2. **Addition to Fund Balance/Reserves:** Typically provided by surplus from prior years, one-time revenues and revenues in excess of operating expenditures.
3. **Replenishment of Fund Balance/Reserves:** Where a deficit causes a fund balance to be reduced contributions will be made over a three to five year period until targeted level is attained using one-time revenues first and surplus next.
4. **Minimum Fund Balance:** Replenishing the fund balance to the minimum level will be the first priority use of excess year-end resources.
5. **Budgeted Fund Balance and Targeted Reserves:** All reserves will be presented in the budget and will be compared to the adopted financial policy. If the resulting targeted reserves fall below policy a plan will be presented to bring the fund balance into compliance.



## **Financial Policies Fund Balance & Reserve Policy for General Fund and Street Operations, Special Reserves and Utility Funds**

6. Periodic Reporting: The Finance Department will provide the City Council with periodic reports (quarterly) regarding fund balance and targeted reserves. for compliance to policy.